IAS 19 ***Employee Benefits*** (November 2010)

Accounting for a statutory employee profit sharing arrangement

The Committee received a request for clarification of the accounting for a statutory employee profit-sharing arrangement that requires an entity to share 10 per cent of profit, calculated in accordance with tax law (subject to specific exceptions), with employees.

The Committee noted that although such a statutory employee profit-sharing arrangement calculates amounts to be payable to employees in accordance with tax law, it meets the definition of an employee benefit and is in the scope of IAS 19. Therefore, the employee profit-sharing arrangement described in the request should not be accounted for by analogy to IAS 12 *Income Taxes* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

The Committee observed that the objective of IAS 19 is to record compensation expenses only when the employee has provided the related service. Consequently, an entity should not recognise an asset or liability related to future expected reversals of differences between taxable profit and accounting profit in connection with such an employee profit-sharing arrangement.

The Committee noted that the statutory employee profitsharing arrangement described in the request should be accounted for in accordance with IAS 19, and that IAS 19 provides sufficient guidance on amounts that should be recognised and measured, with the result that significantly divergent interpretations are not expected in practice.

Consequently, the Committee decided not to add this issue to its agenda.